



The Intraday Trade Model for the Central West Electricity Market

EFET response

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Introduction

We welcome the consultation on the CWE intraday trade model. As expressed by the market participants during the ID-Workshop in Den Haag beginning this year and also mentioned in the Regulator's consultation document, we are in favour of continuous implicit allocation of capacities for the intraday timeframe.

All the more we are surprised about the now proposed alternative model – an implicit auction – that was neither subject of the Workshop in Den Haag, nor was there any discussion on this beforehand. We do not regard implicit auctions as an appropriate intraday trade model that should and can be implemented immediately within the CWE region for the following main reasons:

1. Intraday market coupling is not a flexible solution. The proposed four gate closures per day would not sufficiently allow covering for forced power plant outages. For example, in Germany there is a legal obligation for all balancing responsible parties to cover an outage one hour after the incident at the latest. To gain with implicit auctions the same flexibility as provided by continuous trading, in fact 24 gate closures per day would be necessary which is from our point of view technically not practicable.
2. A prerequisite for implicit auctions is a liquid intraday market. This means that every generator has to bid its available generation into all intraday auctions – similar to day ahead. Having several gate closures per day and the possibility that for the intraday time frame the same rule applies as for day-ahead, namely to bid all available generation into the auction, more personnel will be required. This might be a challenge, especially for smaller generators.
3. Another significant prerequisite for the establishment of intraday market coupling is the running of day-ahead market coupling at all CWE borders. As CWE TSOs and PXs plan to establish market coupling in March 2010 and flow based market coupling end of 2010, work on intraday market coupling would only start in 2011.
4. The integration of electricity from renewable sources, according to their intermittent production, is one of the largest challenges the CWE wholesale power market faces. With a continuous trading mechanism, which allows market participants to benefit from hourly forecasting of load flows and grid availability by TSOs, RES generators are more likely to be able to sell their output in an optimal way. Successful offers of renewable production in this manner onto the grids could in Germany, for example, incentivise some producers to move away from reliance on the feed-in tariff mechanism under the new German Renewable Energy Act. That in turn would

contribute to intra-day liquidity in Germany and might eventually help to lower the price burden on final customers. An implicit auction mechanism with four gate closure will limit their opportunities and will clearly hinder market integration of RES.”

Risk of shift of cross-border trade from day-ahead towards the intraday timeframe

In several chapters of the consultation paper, concerns are raised by the regulators regarding the risk of a shift of cross-border trade from day-ahead towards the intraday timeframe. We find these concerns contradictory, as on the other side regulators would like to see an improvement of the liquidity in the intraday markets as for example indicated in question 2.2.3. Moreover, by proposing a regional intraday solution based on market coupling, liquidity in intraday markets, and thus a shift from day-ahead towards intraday is a prerequisite! In connection with this, the Iberian market shows that the intraday volume sums up to 10 % of the day-ahead volume, whereas the volume traded on ELBAS was less than 1 % of the day-ahead volume (published data from 2008).

Liquidity is a precondition for functioning intraday markets, first to allow balancing responsible parties to balance their portfolio and to react to unexpected events (for example generation outages) close to real time and second for TSOs to cope with unpredictable and intermittent RES generation, especially in countries where TSOs are responsible for the balancing of RES like in Germany.

Further, the issue of a possible shift of liquidity was also being discussed within the Intraday Work Stream of the Project Co-ordination Group (PCG) and all participating parties including ERGEG agreed that this does not constitute a problem.

Thus, we do not see the issues raised under Option 2.1. “*Where day-ahead capacities are managed with explicit auctions, the risk of a shift from day-ahead to intraday should be carefully studied*” as relevant.

In any case, regulators do already have the means to investigate their concerns; for example at the border RTE/RWE TNS, a continuous intraday capacity reservation platform (DE → FR) is in place in combination with daily explicit auctions since 2007.

Interaction cross-border intraday and cross-border balancing mechanisms

In chapter 1.2 is stated that “*During this last hour before real-time the balancing mechanisms will be in action.*” In chapter 4.2 is stated that “*Cross-border balancing exchanges can enhance considerably competition on balancing markets. Such exchanges already exist on the French-German border. A gate closure of intraday exchanges too close to real time could impede these exchanges and reduce competition in the balancing markets.*”

Unfortunately, regulators do not define what they understand under “balancing markets”. At the balancing electricity market Workshop organized by the European Commission and ERGEG on 15.05.2009, the term “balancing markets” was defined as the sum of all mechanisms where TSOs tender for primary, secondary and tertiary regulation power. As these tenders generally take place day, week or even month ahead we do not understand the special concerns of regulators when it comes to the intraday time frame. Balancing markets do as well interfere with day-ahead and even with forward markets.

Response to the Conclusion: Two options can be considered regarding capacity calculation and price in the context of the reference model.

We agree that these two options do exist. Regarding option 2.1.a and the shift of liquidity we refer to our statements made under the heading “Risk of shift of cross-border trade from day-ahead towards the intraday timeframe”.

When it comes to the release of extra capacity for the intraday time frame and the price determination described in option 2.1.b we do not agree with the point that TSOs might release “extra” capacity. TSOs calculate cross-border capacity prior to yearly, monthly and daily auctions. Available cross border capacity is restricted among others by the thermal limit of the grid elements, a value TSOs refer to as the Total Transfer Capacity (TTC). Thus, physically it is not possible to make more capacity available than stated in the TTC value. Furthermore, TSOs are obliged under the EC Regulation 1228/2003 to make the maximum capacity available to the market. Thus we cannot speak about “extra” capacity occurring in the intraday time frame as all available capacity should have been made already available in the other auction time frames and market participants have already paid for their reservation.

Nevertheless, we understand that regulators would like to create a level playing field for all intraday market participants when it comes to the event that within day extra intraday capacity is made available. In this case TSOs should inform the market for example via an UMM 30 min. before they increase the intra-day capacity on the intraday trading platform.

Remarks to chapter 2.2 OTC trades

OTC trades need to be done via the platform in order to reserve cross-border capacity and allow the recalculation of available intraday capacity after the completion of the trade. Thus OTC-trades can be transparently published at the intraday platform and Regulators can monitor those.

Conclusion 2.2

We would prefer option b or c. In option b it is fully sufficient to implement a tool that allows block bids. Other customized products are not necessary. We do not agree that the implementation of this option requires more time, as block bids are used at all exchanges already today. Further, we would like to point out that we discuss the usage of block bids in a continuous trading environment, not in a market coupling environment where the matching of block bids is indeed rather challenging.

Remarks to chapter 2.3

The regulators have described three options. We think that the likelihood of option a – having several operators of intraday platforms competing with each other is minimal. PXs regularly emphasize that due to the small volumes traded intraday (in comparison to day-ahead) and the much higher cost involved with operating a 24/7 platform, they offer intraday trading solutions to complete their overall service. As a stand alone solution intraday trading platforms are not a business case.

Write something that PXs shall align their national intraday markets to a common cross border trading platform? With both options, b or c, this would be possible.

Further is stated in this chapter: “For this purpose, TSOs would probably have to launch a call for tenders for choosing a service provider for a given period. This option should be carefully studied, in particular from a legal point of view: even if the period for which the service provider is chosen is relatively short, is it legitimate to favour the creation of a monopoly?”

The provider would be chosen by a tendering procedure, thus by competition which cannot be seen as “creation of a monopoly”. Our comment above refers as well hereto – intraday platforms are not a business case. However, the question could be asked the other way

around: Why has no exchange taken the opportunity so far to set up cross-border intraday trading platform in CWE?

Also, in chapter 3.3 regulators state that only the PXs already involved in the day-ahead market coupling project would be involved in the intraday project (implicit intraday auctions). We would like to raise our concern as indeed such an approach could be seen as “*creating a monopoly*”, even more by excluding any competition.

Response to specific questions addressed to participants of the consultation:

2.2.1. (for market participants) Why is this issue of the possibility for OTC trades so important? Do the benefits linked to this feature outweigh the risks and drawbacks of a potential reduction of competition and possible discrimination of small market players?

EFET believes that any central market platform, whether for the forward, day-ahead or intraday markets, should be capable of accommodating OTC trades. Even when focusing on the day-ahead and intraday timeframe, the discretion of market participants to choose when, where and how to trade is essential to:

- underwrite market liquidity – by providing more avenues for the conclusion of economically rational deals; and
- preserve competition, innovation and efficiency in the provision of trading platforms and in the provision of credit-risk management, clearing and settlement services.

To the extent that market participants have indicated a desire to enter into intraday transactions on an OTC basis, regulatory measures to restrict this route to market would be more likely to damage and impede liquidity and competition than not. It would also be inefficient and illegitimate to adopt rules to force wholesale transactions “on exchange” because of concerns about the transparency of “off platform” trades. The desire for greater regulatory transparency of OTC standard transactions will be better met by the wider consideration of how market participants should keep records and facilitate disclosure of transaction details. Indeed this subject is currently being addressed by ERGEG and CESR in their deliberations on the application of financial market abuse rules to the physical power and gas markets

2.2.2. (for market participants) Please indicate a preference between the current situation, with a combination of explicit continuous allocation of obligations and explicit allocation of options by improved pro-rata, and a continuous regional purely implicit mechanism (without allowing OTC requests).

Answer: In this case our preference would be a continuous regional purely implicit mechanism (without allowing OTC requests).

The more relevant question is which of the three continuous implicit mechanisms should be preferred rather than indicating a preference for any one of those models over the current situation. While all three models might be preferred to the current mechanism, of the three alternatives only one doesn’t restrict competition by excluding OTC transactions. Given, as we have described above, there seems no reason or justification – on grounds of either cost or competition – for excluding OTC transactions within day, we would therefore again urge the adoption of Option 2.2.c over the current situation.

2.2.3. (for all stakeholders) May the publication of the tripping of large units quickly after real-time H+2 (as envisaged in regulators transparency report) improve the liquidity of the intraday market?

Answer: We do not see any correlation between the publication of generation outages and liquidity in the intraday market. But if the generator whose unit tripped puts a bid (request) on a cross border intraday platform this will improve the liquidity of the intraday market. In addition to the fact of the outage, it would also help to have some objective details and facts on the cause of the outage.

2.3.1. (for all stakeholders) For options 2.3.b and 2.3.c, how long should be in the specifications of the calls for tenders the period of time for which the concession should be valid?

Answer: Taking the development time into account and the cost involved with the setting-up, such a concession should be valid at least 5 years. A shorter time span will result in less participation in the tender and ultimately result in more expensive offers. Moreover, a tender for an intraday cross border trading platform is not a tender asking for a standard solution that already exists in many variations in the market. We believe that a more appropriate approach is to oblige the successful bidder to continuously develop and adapt its platform to the needs of the market and to the changing regulatory framework. Finally, it does not facilitate the market to implement every two years or so a different system; plus it would only cause additional costs..

3.3. Respondents to this consultation are asked to indicate their opinion regarding this issue and to indicate other possibilities that they consider relevant and efficient.

Answer: Please see our last comment in “Remarks to chapter 2.3”.

3.4.1. (for market participants) What would be the minimum number of gates per day to provide for sufficient flexibility?

Answer: If an implicit auction model would be implemented, maximum flexibility also needs to be assured. In order to fulfil this, the minimum number of gates must be 24 per day. This is also necessary in order to comply e.g. with the obligation in the German law that after an outage the TSOs takes care of the balancing within the first hour, while afterwards it is the obligation of the generator to provide replacement.

3.4.2. (for market participants/PXs) What would be the maximum number of gates per day to provide for sufficient liquidity and reliability of price signal?

Answer: Same as above, 24 gates.

4.4.1. (for all stakeholders) Should TSOs and market participants be allowed to make cross-border balancing exchanges before intraday gate closure time? If yes, how should these exchanges be organised (via the intraday market, via a specific module of the intraday platform, via another tool)?

Answer: Allocation of cross-border capacity to the market shall be done on a (multi)yearly, monthly and daily basis. Remaining capacity after D-1 nomination gate closure shall be allocated intraday; remaining capacity after intraday gate closure can be used only for balancing purposes.

The only exemption we see where TSOs shall be allowed to participate in the intraday trading market is when TSOs are held responsible for the balancing of renewables, which from EFET’s point of view should not be a TSO responsibility (which, however, is the legal situation in Germany). For example, the draft new regulation „EEG-Verordnung zur Neugestaltung des EEG-Ausgleichsmechanismus“ obliges the TSOs to balance the deviation between forecasted and actual wind in-feed intraday. This means that in this specific case the

German TSOs should be allowed to participate in the continuous intraday trading platform to balance RES generation.

4.4.2. (for all stakeholders) When should the gate closure time be set in order not to prevent balancing exchanges?

Answer: Provided that the above conditions are met with respect to consistent pricing across the balancing and intraday markets, and the system operator can participate in the intraday sessions, then gate closure should be one hour ahead of delivery (D-1).